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Educational Circular 17

MANAGING FARMER COOPERATIVES

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PREFACE

FARMER cooperative business enterprises require good management. It is important that members, directors, and employees of cooperatives meet their respective responsibilities in fulfilling this vital need. It is essential that each one of the three groups fully understands its responsibilities if management functions are to be performed effectively. This publication explains some basic aspects of what management in a cooperative is and how responsibilities for it are divided among members, boards of directors, and employees.

This circular was first issued in 1939 by the Farm Credit Administration. It was reissued in slightly revised form in 1951. The present revision, completed by Mr. Gardner before his retirement, sets forth some fundamental concepts based on his long experience in the field of cooperative business administration.

CONTENTS

	Page
The management team.....	1
Members' role in management.....	2
Rights and responsibilities.....	2
Steps to insure good management.....	3
Vital place of directors.....	4
Selecting directors.....	4
Qualifications of directors.....	6
Responsibilities of directors.....	6
Directors' attitudes.....	7
Developing policies.....	8
Number of directors.....	9
Board committees.....	9
Managers' duties and responsibilities.....	10
Selecting a manager.....	10
Qualifications of managers.....	10
Responsibilities of employees to board and members.....	12
Some questions on managing farmer cooperatives.....	14
Suggested material for further reading.....	14

2007

Managing Farmer Cooperatives

by Kelsey B. Gardner ¹

SUCCESS or failure of a cooperative is closely linked with the character and ability of management. The reason most frequently stated for failure among cooperatives is "inefficient management." This is not surprising, because from a broad point of view management is concerned with planning, organizing, and staffing key personnel; direction and leadership; and coordinating and controlling all of the activities of the association.

Briefly stated, management deals with all the varied activities of a cooperative such as member relations, financing, handling members' products, pooling sales returns, purchasing supplies, merchandising, transportation, maintaining satisfactory accounting and other necessary records, and numerous other phases of the association's operations.

It is readily seen why "inefficient management" is the dominant reason given when a cooperative fails.

The Management Team

MANAGEMENT of a cooperative is often incorrectly thought of as including only the manager and his principal assistants. This is far from the fact. Cooperative management should be regarded as a team consisting of members, directors, and the manager and other responsible employees. Each part of the team has its own distinctive duties and responsibilities for performing man-

agement functions in a cooperative.

The laws under which business corporations, including farmer cooperatives, are generally incorporated state that the affairs of the enterprise shall be managed by a board of directors. Basic responsibility for management is thus vested in the board of directors. Employees of the association can function only as duties and authorizations are delegated to them by the board of directors.

Many duties of the board and the manager overlap in varying degrees, but it is possible to determine where the functions of the board

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leave off and those of the manager begin. If a smoothly running organization is to be developed, this distinction must be made in order that board and manager may

know their specific duties and responsibilities.

Now we will discuss each element of the management team, beginning with the members.

Members' Role in Management

MEMBERS of a cooperative possess definite, reserved rights in the ownership and control of the association. These important rights give them the privilege of taking an active part in the management of the association. To be effective, members must exercise these rights, otherwise they have no voice in management.

Successful management of a cooperative, therefore, is based on the intelligent and active cooperation of the members with the board and with the employees, each group shouldering its own responsibilities to the best of its ability.

Rights and Responsibilities

The rights of members to participate in the management of their cooperative are of different kinds. Their rights permit them to:

1. Elect and remove directors of the association.
2. Adopt and amend bylaws.
3. Approve changes in the capital structure of the association.
4. Increase or decrease the capitalization; approve loans under special circumstances; and adopt marketing contracts and other contractual arrangements between themselves and the cooperative.
5. Require officers, directors, and other agents to comply with the law under which the association was set up and with its articles of incorporation, bylaws, and membership contracts.

6. Hold directors and officers who fail to so comply liable for any losses caused members by the failure.

7. Examine the association's books of record and its property, subject to reasonable restrictions.

Members both own and control the association. They also are its patrons to the extent that they market their commodities or acquire supplies or services through it. Thus it is to their interests to see that the management of the association is as capable and efficient as it is possible to make it.

If the association is operated inefficiently, members stand to lose. They may lose through the actual loss of their capital investment, or, as an example, in a marketing association, through high handling costs and low prices resulting from poor selling ability.

Members have a direct responsibility for approving and accepting fundamental policies that are of the highest importance in the functioning of the association. In meeting this responsibility, members adopt bylaws—the operating blueprint for the association. Members should approve such basic policies as those determining and controlling conditions relating to extension of credit, adoption of a retirement system for employees, or changes in the financial structure of the association.

Steps To Insure Good Management

Members, as owners of the association, are in the last analysis responsible for the character of its management. They benefit from good management, and the results of the bad management fall directly on them. Members can take a number of important steps to protect their interests by achieving efficient management and adequate understanding of their association. Some of these follow:

1. Select the most able and best qualified members to serve on the board of directors. Check and analyze the attitudes and performance of the board.

2. Make special effort to understand the business of the association.

3. Recognize the possibilities and limitations of the association. Don't expect more of the association than it can deliver.

4. When in doubt about any phase of the association's operations, discuss the question promptly with a member of the board of directors or a responsible officer or employee. If outsiders criticize the association, obtain the facts from proper association sources.

5. Use the officials of the association as sources of accurate information regarding association matters.

6. Give the association complete loyalty and support based on adequate facts and information.

7. Attend meetings regularly to discuss business matters relating to the association and to approve or disapprove proposed actions relating to its problems.

8. Avoid interference with employees in their duties of carrying on administrative details. If there are questions or suggestions regarding the manner in which these duties are performed, they should be taken up with the proper officials.



In annual meetings members of farmer cooperatives act to meet their responsibilities in management, including selection and election of directors.

9. Accept a policy of an adequate wage scale for employees.

10. Assist the board of directors on matters relating to broad policies by making the views and wishes of the membership known.

11. By electing new members from time to time, make certain that the board does not develop a sense of owning the association. "New blood" will bring new ideas to the board.

12. Do everything practicable to increase the volume of business of the association within reasonable limits.

13. Through the board of directors, allow the manager ample latitude in performing his duties and in the use of his own judgment and experience.

14. Keep up membership interest and active participation. Avoid the inactive attitude which will permit the selection of an indifferent or inactive board, as this may result in the development of one-man control by the manager if members and board have failed to perform their obligations properly. Lack of interest on the part of a large pro-

portion of the members permits a small group to control the association—an unhealthy situation.

An important point in connection with member participation in the control of many associations is the use of the one-man one-vote principle, regardless of volume of business contributed to the association by the individual member.

Surveys have shown that around 80-85 percent of the farmer marketing and purchasing cooperatives follow the one-man one-vote principle. This is another way in which cooperatives have sought to encourage members to take part in control of the association.

Still another way of furthering direct participation of members in the control of the association is the requirement that a member must be present personally in order to vote. This provision is found in many State cooperative statutes. He cannot turn over his right to vote at a membership meeting by giving his proxy to another. The principle of not allowing proxy voting in cooperatives is generally accepted as sound.

Vital Place of Directors

WHAT does the board of directors have to do with the management of an association?

Under the statute controlling its incorporation, the board of directors of an association is ordinarily charged with the responsibility of managing the affairs of the association.

These include: (1) Selecting managerial personnel, (2) delegating authority and assigning duties to management personnel, (3) formulating policies, (4) checking to see that the policies are being followed,

and (5) evaluating the results obtained from the operation of the policies adopted.

Stated in another way, the board of directors has as its primary duty the management of the association and the direction of its operations in accordance with the general lines of policy agreed upon and adopted by the members.

Selecting Directors

Members exercise their control of management through their representatives on the board of direc-



Tellers count and record the written ballots of members voting for directors or on issues brought before them for decision.

tors. Thus it is to the members' interest to elect thoroughly qualified individuals as directors.

Also because of the responsibilities resting on the directors, members should weigh carefully the merits and qualifications of any nominee before they elect him to serve on the board.

Although any member of an association meeting the requirements stated in its bylaws may be eligible for election to the board of directors, this does not mean that every member is actually fitted to serve as a director.

Other qualifications are essential in addition to the usual single eligibility requirement of being a member in good standing. Ability, judgment, and experience are also needed. Because of their training and experience, some members are better qualified to act as directors than others.

If it is possible to select otherwise well-qualified individuals who have special training or experience in financing, marketing, law, or general economics, this will prove desirable.

In order that their members may more actively take part in selecting the board of directors and be more directly represented on the board, some of the larger cooperatives of the centralized type have divided their operating areas into districts. Members then elect representatives to the board of directors by districts.

The districts serve another useful purpose, often being used as units to conduct educational programs on the association's activities. Districts also make it easier for members to take an active part in the affairs of their association, including direct participation in association control. Another objective is to develop a greater sense of own-

er responsibility on the part of members.

Qualifications of Directors

In sizing up the possibilities of a member as a director, each member should ask some questions regarding the prospective director's fitness to fill the position. These may well include:

1. What is his business record? Does he manage his own affairs well? Does he possess sound business judgment?

2. Is he willing to work at the job of being a director or is he more apt to be inactive? Has he shown a capacity for working with others or is he an "individualist"?

3. Do his neighbors regard him as a leader? Does he enjoy their confidence for honesty and integrity? What capacity has he shown as a leader?

4. Does he possess a high degree of loyalty to the association and to cooperative principles? At the same time, does he possess a proper understanding of the limitations as well as the possibilities of what can be accomplished through cooperative effort?

5. Is it clear that he will help his fellow members to obtain a more complete understanding of the association and its various activities and problems? Will he do his part conscientiously in making information about the association available to members?

No one individual may possess all of these traits in high degree, but any member worthy of consideration for election to the board should possess all of them to a satisfactory extent. Some individuals will be better qualified in one field than others. If members recognize these differences in qualifications, it is

possible to build up a well-balanced board based on an intelligent selection of the best available material from the membership.

In the event that members are dissatisfied with any director, they may remove him from his position for cause in accord with the State law under which the association was organized.

Responsibilities of Directors

A detailed statement of some of the responsibilities of a board of directors will be helpful. These may be listed as follows:

1. Control the affairs and business of the association including the establishment of guidelines for officers and employees.

2. Fulfill the obligations arising from the membership agreements and under the bylaws of the association.

3. Appoint, generally supervise, and remove at will officers, committees, agents, or any employees of the association selected by the board, particularly the manager; prescribe their duties and rates of pay, and require them to give bond, when deemed advisable.

4. Call special meetings of the membership when the board deems it advisable or upon a request of members made in accordance with the bylaws.

5. Enter into or authorize contracts with distributors or with suppliers of goods and services required by members.

6. Select banks for the deposit of association funds and designate the person or persons who shall sign checks for the association.

7. Borrow funds for any proper purpose of the association.

8. Keep a complete record of the actions of the board.

9. See that an adequate bookkeeping and accounting system is maintained; provide for its regular examination by competent outside auditors; and present to the members at stated periods a statement of the financial condition and operations of the association.

As agents of the members in carrying on the various activities of an association, what do directors owe to members? The answers to this question will, to a large extent, indicate the steps which lead to efficient management by the board of directors and the employed management group. Because we are thinking in terms of all kinds and types of associations, the answers must be given in general terms.

In looking at the board of director's responsibilities to members, the following are important, although others might also be named.

1. Service by each board member to the best of his ability and capacity.

2. Representing members' interests on an impartial basis.

3. Selecting a capable manager.

4. Adopting policies and procedures along sound business lines, based on study and analysis of the available facts.

5. Using adequate checks to make certain that the manager is conforming to the broad policies adopted by the association and by its board of directors.

6. Careful study of the operating results obtained from policies in order to determine whether they should be continued, changed, or dropped.

7. Taking active and energetic steps to keep the membership fully informed regarding association activities and problems. This means active participation by board mem-

bers at member meetings and in discussion with individual members.

8. Rendering disinterested service and making their farmer interests of first importance regardless of any other interests they may have. This means that, as a general rule, directors will not be employed by the association or receive compensation from it except in the performance of temporary duties directly connected with their positions as directors. It also means that directors' relatives should not be employees of the association.

Directors' Attitudes

The way in which a board of directors assumes its responsibilities determines in a large measure the character of the cooperative. If the board is active and capable, this tends to bring about a proper balance between members, board, and manager. If the board is indifferent, there is the probability that the manager will take over most of its functions, resulting in a "one-man" organization with a "rubber-stamp" board.

Members of boards of directors of cooperatives are not chosen to serve in an honorary capacity, although a few board members unfortunately appear to take this point of view. Doing the work of a director adequately and satisfactorily requires conscientious thought and effort. The job carries with it important legal responsibilities as the corporate powers of the cooperative are vested in its directors.

Individual board members, as they meet members of the association, can do much to build good feeling or ill will, depending upon the attitude they exhibit toward the

association and the knowledge or ignorance they exhibit regarding it.

Developing Policies

The board of directors must assume full responsibility for developing policies and evaluating the results obtained from their operation. This does not mean that the general manager and his chief assistants do not have important parts in the development and administration of policies. The board must rely on information, advice, and suggestions furnished by employees.

This becomes increasingly important as the policies become more directly involved with the details of operation. Policies controlling departmental operations, for example, should be gone over and agreed upon by the personnel before adoption so that suggestions to the board are based on the best judgment available. Final responsibility for adoption of controlling policies, even those relating to departments of the association, rests with the board of directors.

A business policy has been defined as a definite course or principle of procedure which specifies the aims of the business and the approximate methods to be followed in successfully accomplishing them.

A policy thus becomes a chart or a plan of action which the organization expects to follow consistently, provided changes in conditions do not necessitate modifications or changes.

Frequently the development of a policy is based on several decisions which result in its establishment without definite recognition that a policy has been set up.

A cooperative is usually concerned with different types of policies. These may be thought of as

belonging to three groups—general, major, and departmental.

A general policy has been described as “a definite statement of the ideal which is the animating force in the business and of the principles which guide the management in its conduct.”

A major policy should conform to the general policy and give more immediate purpose to it by designating the operating methods of the cooperative.

Departmental policies “designate the way in which the organization is to segregate and combine its functions, and the methods and systems to be used in the exercise of these functions.”

Illustrations of these various kinds of policies will aid in understanding them.

For example, a citrus marketing association may have as one of its general policies the objective of increasing consumption of its members' products by bringing about a better distribution among various markets.

A major policy supporting this general policy may be maintenance of sales offices in important markets through which accurate market information can be collected so that the central organization can readily determine what supplies should be offered in each market.

Departmental policies, in turn, as administered by departments of the cooperative, can be concerned with such items as the methods to be followed in bringing about the proper direction by the sales department of individual shipments of the proper grades and sizes of fruit to each market, advice from the sales department to each market of the shipments en route, and supervision by the traffic department of refrigeration requirements during transit.



The director's job in a farmer cooperative calls for ability, knowledge, and experience. A manual will help the new director to gain more readily and accurately knowledge of the association's objectives, policies, and practices, and his responsibilities.

Formulation and adoption of a policy along the lines outlined involve a rather slow procedure. However, if the policy later proves to be unsound, responsibility for it does not fall upon a single individual. If it is given full consideration, it is less likely to prove unsound, because it is based on consideration by a group rather than by one or two individuals.

The task of the board in determining the value of the policies which it has adopted is not an easy one but is most important.

Number of Directors

The number of directors varies. In the smaller associations, the board usually has a membership of five, seven, or nine. From this group, it is usual to select the president, vice president, and other officers of the association. In the

larger associations and especially in regional or other large-scale organizations, the boards usually consist of larger numbers.

Board Committees

In some of the larger associations, the board's work may be divided among a number of special or permanent committees, each dealing with a phase of the association's operations. For example, there may be a finance committee, a purchasing committee, a merchandising committee, and others.

Each committee studies the problems in its particular field, and makes recommendations to the board of directors. In some instances, committees may be given certain powers to act for the board, subject to review by the entire board.

In other large associations a small

group, usually consisting of three or five members of the board, may be selected to serve as an executive committee. This committee per-

forms certain duties as authorized by the board and in accordance with the legal power of the board to make such authorization.

Managers' Duties and Responsibilities

WHILE the members and the board of directors have important roles in the general management of the cooperative, responsibility for the many details of management rests with the manager and his key employees.

The manager's job of supervising and coordinating the various activities of the association covers two broad fields: Management of technical operations and management of men. Both are important to the cooperative, and its measure of success depends upon the manager's doing both parts of his job efficiently.

The duties and responsibilities of a manager vary with the type of organization, the character of services rendered by it, its size, and any special conditions under which it operates. Under the circumstances, it is difficult to outline the duties of a manager except in general terms.

In larger associations, managers' duties are supervisory and coordinating in character as the various departments are usually each headed by a department manager. Their widespread duties cannot be performed satisfactorily unless their knowledge in these fields is adequate.

Some of the activities managers may be required to supervise and coordinate are purchasing and manufacturing supplies on a large scale; extensive merchandising operations, including advertising, research, and selling; and research on byproducts and their manufacture.

In a small association, the manager with a few assistants does the actual work of carrying on the various operations, such as receiving and handling supplies and commodities, grading, packing, processing, shipping, and selling. The need for training and experience based on the requirements of the job to be done is as important in the small association as it is in the large one.

Selecting a Manager

One of the most important responsibilities of the board of directors is to select a competent manager. Coupled with this is the delegation to the manager by the board of his areas of responsibility and his powers within these areas.

Having done this, the board cannot sit back and allow the association to be taken over by the manager. There must be a continuing checkup.

On the other hand, the board ought not turn from its major responsibilities to concern itself with the many minute and routine details of conducting the business. The development of a busy-body attitude on the part of the board makes an intolerable situation for the manager and reduces the effectiveness of the board.

Qualifications of Manager

The manager should have experience in the type of work he is to do. He should be the best man obtain-

able. His honesty and integrity should be unquestioned because of the absolute necessity for complete confidence between the board of directors and the manager. He should be a competent businessman in whom association members and his fellow workers will have confidence.

The manager must be able to meet the technical requirements of the particular job to be done. For example, in a marketing association, he must know how to prepare the product for sale and where to sell it. In a purchasing association, he must know what to buy, where to buy it, what the prevailing prices are, and how to price the product to members and patrons of the association. He must be alert to adopt new ideas and improved ways of doing things, but only after careful study has shown that the new plan is workable and desirable.

One of the most important qualifications of a manager is that he be sympathetic to cooperative principles and ideals. This is essential

because the extent of the loyalty of the membership of the association will depend largely upon the ability of the manager to act as a leader and to inspire members' confidence. The manager must be able to sell the association.

Organizations operating under entirely sound business principles have failed because the manager neglected or was unable to develop membership confidence and loyalty. This requirement is one that many times causes difficulty when associations attempt to obtain a manager from other types of business. Some individuals find it difficult to make the adjustments necessary when they become cooperative employees. They do not realize that the owners of the business and the patrons from whom the business of the association originates are essentially the same and that their interests are identical.

It is a mistake to employ a manager whose principal recommendation is that he will take a lower salary than others. Cooperatives



In reaching decisions on association problems and in developing its policies, the board of directors makes full use of the experience, knowledge, and counsel of the manager of the cooperative.

must pay on a competitive basis for the experience, training, and ability necessary on the part of their managers. Cooperative employees of farmer cooperatives, unlike those in other businesses, have no opportunity to acquire stock ownership interest in the association and share in the financial growth resulting from its successful operation.

Usually a manager who continues with an organization over a number of years becomes increasingly valuable to the association. In such a case, it is better to increase his salary in order to retain his experience and personal knowledge of the association and its problems than to employ a new manager.

Sound judgment requires that employees do not have an interest in any business concern with which the cooperative does business. They should not be thus permitted to exploit their cooperative connections to their personal advantage.

There is rather substantial agreement that a board member should not act as manager of an association. It is true that there have been important exceptions to this point of view, but they must be regarded as exceptions rather than as examples to be followed.

Many who have given a great deal of consideration to the subject believe that if a member of the board is elected manager, he should resign his position on the board. They believe that in a marketing association, for example, the board should meet as growers, disregarding any other interests that they may have.

This would be well-nigh impossible in the case of a board member acting also as manager. He would be called on as a board member to approve or disapprove his acts as manager. His interests would be, therefore, essentially those of a manager and his effectiveness as a board member reduced.

Responsibilities of Employees to Board and Members

THE manager and other employees of an association have a definite interest in the successful operation of the association. This is particularly true of supervisory employees. Although they may have no financial interest in the association such as a member has, they do make an investment of time, energy, and effort.

If the association is successful, their reputations are enhanced. If unsuccessful, they are adversely affected.

Some of the responsibilities of the manager to the board of directors and to the members of the association may be summarized as follows:

1. Supervising the detailed operations of the association in a man-

ner consistent with powers delegated by the board. Working in close cooperation with the board of directors. This is not always easy to do as boards are not always business-minded.

2. Complying with association policies and conducting the business of the association along the lines established by policies adopted and approved by the board.

3. Assisting the board of directors in setting up new policies, in studying the value of policies adopted and in determining the need for any changes or modifications, and proposing new policies for consideration.

4. Obtaining assistants and other employees best qualified for the jobs

they are to do and supervising and coordinating their activities.

5. Following sound business principles in the supervision and coordination of the activities of the association, including merchandising and selling, operating, and financing.

6. Conducting the association's business on an economical basis, avoiding waste without curtailing the services which members may properly expect from the association.

7. Developing a budget of anticipated receipts and expected operating cost; making any necessary adjustments in costs incurred so that they will always be held to an amount less than receipts.

8. Maintaining adequate accounting records of all transactions which will permit the financial position of the association to be determined at any time. The records and periodic reports to the board and members should disclose the association's operations in sufficient detail so that its financial condition and results of operation currently may be compared with similar figures for previous operating periods.

9. Building confidence among buyers in the honesty of the association and in the reliability of its products or services.

10. Conducting the affairs of the association so as to develop confidence on the part of businessmen and others in the community. This confidence will prove to be an asset of the highest value.

11. Devoting full time to the affairs of the association. Responsible employees should have no financial interest in any business concerns with which the cooperative does business, nor engage in sideline

activities in competition with the association.

12. Insisting upon adoption of adequate provisions for the accumulation of member capital.

13. Training junior employees who may assume the duties of their immediate supervisors if need should arise.

14. Making adequate study, including research in the larger associations, of problems affecting the operation of the association. Assistance of various agencies of the State and national governments may be obtained in attacking some of these problems.

15. Taking all practicable steps to increase the volume of business of the association to an amount where the most efficient operation will be obtained.

16. Being alert for new operating ideas which will benefit the association.

17. Last, and of the highest importance, the employed management should bend every effort toward the development of membership loyalty and confidence in the association. Efficient handling of merchandising operations and financial phases of the business is not adequate, nor is it enough that the business succeed financially. It can only succeed as a cooperative business enterprise when its members support it because of a full recognition of their three-fold responsibilities as owner-member-patrons.

Members must be kept informed of the progress and problems of the association. Intelligent and continuing loyalty on the part of the members can come only from an understanding based on facts made readily available. Blind faith as a substitute is wholly insufficient.

Some Questions on Managing Farmer Cooperatives

1. List the more important duties of the manager of a cooperative with which you are acquainted.

2. What percentage of the total number of members of this association usually attend membership meetings?

3. How do the members of this cooperative take part in directing its management? What part does its board of directors take in managing the affairs of the association?

4. What are some of the important policies of this cooperative?

5. Who makes its policies? Members, board of directors, or manager? Who should make them?

6. How does this cooperative keep its members informed regarding its business and its problems? Can you suggest any other satisfactory methods?

7. Under what circumstances do you think the members of an association should remove a director from the board? When should the directors remove the manager?

8. Do you think a cooperative manager should be paid a monthly salary, or should he be paid on the basis of a percentage of total dollar sales, or at a fixed rate for each package or other unit of commodity handled by the association?

Suggested Material for Further Reading

Those wishing to inquire more fully into the several factors involved in managing farmer cooperatives will find these publications useful sources of additional information.

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To obtain copies, write:

**Farmer Cooperative Information
U.S. Department of Agriculture
Room 1474 South Building
Washington, D.C. 20250**

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.

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